

Table of Contents
Minnesota State Retirement System

<i>Agency Profile</i>	1
Agency Expenditure Overview	5
Agency Financing by Fund	6
Agency Change Summary	8

msrs.state.mn.us/

AT A GLANCE

- The Minnesota State Retirement System (MSRS) was established in 1929.
- MSRS manages five defined benefit retirement funds and four defined contribution retirement funds.
- MSRS has \$14.39 billion in defined benefit fund net assets held in trust and \$7.91 billion in defined contribution fund net assets held in trust.
- MSRS has 130,688 defined benefit fund members and 215,832 defined contribution fund participants.
- MSRS has 906 total participating employers.
- MSRS manages a fiscal year 2019 administrative and recordkeeping budget of \$23.53 million.
- MSRS is governed by an 11-member board of directors.
- MSRS employs 144 people.

Source: MSRS 2018 Comprehensive Annual Financial Report

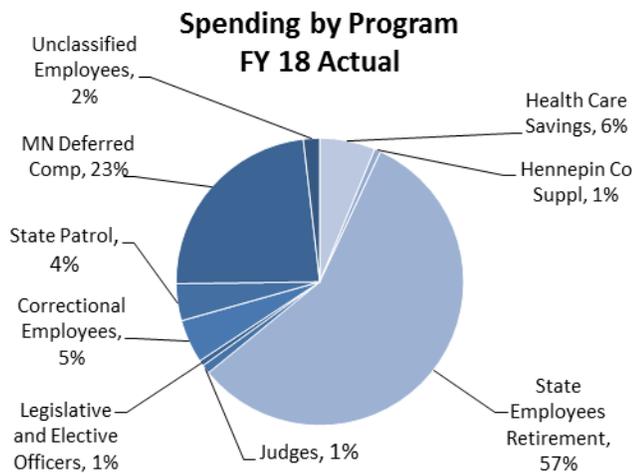
PURPOSE

The Minnesota State Retirement System’s (MSRS) mission is to empower Minnesota public employees to build a strong foundation for retirement.

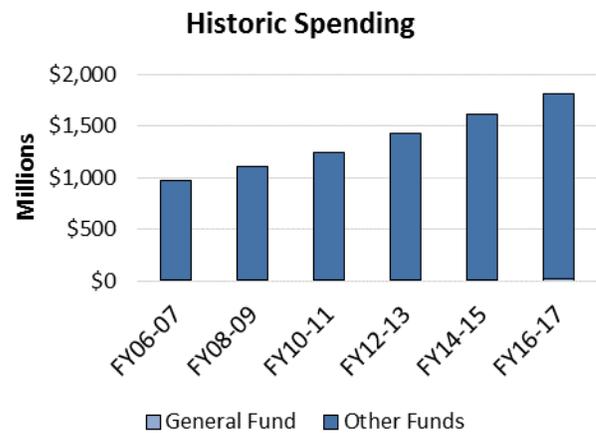
MSRS supports the following statewide outcomes:

- A thriving economy that encourages business growth and employment opportunities by allowing retirees to remain self-supportive and purchase goods and services in the local community.
- Minnesotans have optimal health by allowing public employees access to a Health Care Savings Plan.
- Strong and stable families and communities, with over 90% of MSRS retirees living in Minnesota.
- Efficient and accountable government services.

BUDGET



1. Spending includes retirement benefit payments, distributions to participants, and administrative expenses.
Source: MSRS 2018 Comprehensive Annual Financial Report



1. Other Funds include MSRS’ defined benefit pension trust funds.
2. Although undetectable on the chart, General Fund appropriations finance a small portion of the benefits and administrative expenses for the State Patrol and Judges Retirement Plans and the majority of the expenses for the Legislators Retirement Plan.
Source: MSRS Comprehensive Annual Financial Reports

MSRS administers multiple retirement plans that provide retirement, survivor, and disability benefit coverage for Minnesota state employees as well as employees of the Metropolitan Council and many non-faculty employees at the University of Minnesota and Minnesota State university system. MSRS covers over 57,000 active employees and currently pays monthly benefits to almost 46,000 retirees and survivors. We also administer the Minnesota Deferred Compensation Plan and the Health Care Savings Plan.

MSRS administers five defined benefits funds internally: the State Employees, State Patrol, Correctional Employees, Judges, and Legislators Retirement Plans. All of these plans, except the Legislators Retirement Plan, are funded primarily with investment earnings comprising approximately 76 percent of revenues for the period ending June 30, 2018. Plan member and employer contributions each comprised about 23 percent of revenues in the same period. MSRS contribution rates continue to remain relatively stable and were 5.5% for the State Employees Retirement fund for the period ending June 30, 2018. The defined benefit funds have realized an annualized investment rate of return of 10.3% for the period ending June 30, 2018, and 7.8% for the ten-year period ending June 30, 2018. MSRS' administrative expenses for these funds continue to be less than 1/10 of 1% of plan net assets.

MSRS receives an annual \$6 million General Fund contribution to the Judges Retirement Fund until the fund is fully funded. For the State Patrol Retirement Fund, MSRS receives supplemental General Fund aid of \$1 million annually until the Public Employees Retirement Association Police and Fire Retirement Fund and the State Patrol Retirement Fund become 90 percent funded on a market value of assets basis. For the Legislators Retirement Plan, MSRS receives state General Fund appropriations to finance monthly regular retirement and survivor benefit payments, and the plan's proportionate share of MSRS' administrative expenses on a pay-as-you-go basis.

MSRS also administers four defined contribution funds: the Unclassified Employees Retirement Plan, the Minnesota Deferred Compensation Plan, the Health Care Savings Plan, and the Supplemental Retirement Plan for Hennepin County. For these plans, participants' tax-deferred contributions are invested daily and held in trust until retirement or termination of employment. Participant administrative fees include recordkeeping, custodial, and other MSRS administrative expenses. These plans require no state appropriation for funding purposes.

STRATEGIES

The MSRS vision is to be a nationally recognized leader in public retirement plans by leveraging our engaged workforce, customer-focused culture, and innovative technologies to promote sustainable retirement options for Minnesota public employees.

MSRS utilizes the following strategies to accomplish its stated mission and vision:

- **Talent Management:** Our goal is to attract, hire, develop, empower, and retain an engaged workforce by encouraging collaboration and performance, promoting trust and accountability, coordinating learning and development opportunities, and routinely identifying staffing needs and filling gaps.
- **Service Delivery:** Our goal is to enhance customer service by fostering a customer service culture, modernizing organizational processes, enhancing our security posture, and preparing for disruptive events.
- **Participant Success:** Our goal is to increase retirement readiness of Minnesota public employees by offering a comprehensive customer experience, improving participant-facing technology, and enhancing retirement income with the Minnesota Deferred Compensation Plan.
- **Financial Sustainability:** Our goal is to ensure the long-term financial viability of MSRS pension plans by increasing pension sustainability and achieving further generational equity.

MSRS operates from its main office in St. Paul and branch offices located in St. Cloud, Mankato, Detroit Lakes, and Duluth. MSRS is organized around two functional areas: retirement services and administrative support. Retirement Services staff provide records management, education, benefit determinations, and retirement

counseling to members of all MSRS retirement plans by phone, through onsite visits, and through the MSRS web site. Administrative divisions support accounting, contract administration, information technology and systems, and financial reporting.

For MSRS’ defined benefit plans, MSRS collects member and employer contributions through payroll deductions and transfers these assets to the Minnesota State Board of Investment where they are pooled with the assets of other statewide retirement associations and invested in various securities. MSRS disburses monthly benefit payments to retired members, survivors, and disabled employees, and processes lump-sum withdrawals and rollovers to members who have terminated employment.

For MSRS’ defined contribution plans, participants’ tax deferred contributions flow from the employer to the recordkeeper and custodian for daily investment. Individual participants select their own investments from the various options offered. At MSRS’ direction, the recordkeeper will make distributions to participants and vendors, and reimburse MSRS for each plan’s proportionate share of administrative expenses. Financial transactions of these funds are not captured in the state’s accounting system. Thus, the fiscal pages of this budget document omit the financial activities for these plans.

RESULTS

The 2018 Legislature enacted significant pension reforms for the State Employees, State Patrol, and Correctional Retirement Plans by increasing member and employer contributions and trimming plan features, including the lowering of the annual post-retirement benefit increases. The bill also modified MSRS’s investment earnings assumption from 8.0% annually to 7.5% annually. Incorporating all these reforms, MSRS’s 30-year projected funding ratio for the State Employees Retirement Fund is over 100 percent by 2048.

Three measures of a defined benefit plan’s financial health are:

- **Contribution Sufficiency/Deficiency Rate** – This rate is the difference between the actuary’s computation of required employer and employee contributions rates and the statutory contribution rates, expressed as a percent of payroll. A sufficiency indicates that the plan is on target to reach a 100% funded ratio before its full funding date; conversely, a deficiency means the retirement system is not collecting enough contributions to meet its full funding target date.
- **Unfunded Actuarial Accrued Liability** – This is the difference between the actuary’s valuation of assets and the present value of members’ future benefits.
- **Funded Ratio** – This ratio is the percent of a retirement fund’s net assets, calculated for actuarial purposes, that is available to pay the present value of benefits that employees already earned. The higher the ratio, the better positioned the retirement plan is to pay future benefits when they become due.

The table below presents actual and estimated performance measurement data for MSRS’ defined benefit funds as of June 30 2017, and June 30, 2018, based on computations using the market value of assets.

<i>Type of Measure</i>	<i>Performance Measure by MSRS Fund</i>	<i>June 30, 2017 - Actual</i>	<i>June 30, 2018 - Actual</i>	<i>Status</i>
	MSRS State Employees Retirement Fund			
Quality	Contribution Sufficiency/(Deficiency)	(2.0)%	0.6%	Improving
Quality	Unfunded Actuarial Accrued Liability	\$2.0 billion	\$1.4 billion	Improving
Quality	Funded Ratio	86.1%	90.6%	Improving
	State Patrol Retirement Fund			
Quality	Contribution Sufficiency/(Deficiency)	(4.7)%	0.1%	Improving

<i>Type of Measure</i>	<i>Performance Measure by MSRS Fund</i>	<i>June 30, 2017 - Actual</i>	<i>June 30, 2018 - Actual</i>	<i>Status</i>
Quality	Unfunded Actuarial Accrued Liability	\$189 million	\$201 million	Worsening
Quality	Funded Ratio	78.5%	78.4%	Worsening
	Correctional Employees Retirement Fund			
Quality	Contribution Sufficiency/(Deficiency)	(6.2)%	(1.3)%	Improving
Quality	Unfunded Actuarial Accrued Liability	\$391 million	\$376 million	Improving
Quality	Funded Ratio	72.4%	74.8%	Improving
	Judges Retirement Fund			
Quality	Contribution Sufficiency/(Deficiency)	(1.7)%	0.1%	Improving
Quality	Unfunded Actuarial Accrued Liability	\$164 million	\$176 million	Worsening
Quality	Funded Ratio	53.1%	53.4%	Improving
	Legislators Retirement Fund is funded by the General Fund on a pay-as-you-go basis and therefore performance trends are not measurable.			

Legal Citations:

State Employees Retirement Fund – M.S. Sections 352.01-352.87 (<https://www.revisor.mn.gov/statutes/?id=352>)

State Patrol Retirement Fund – M.S. Chapter 352B (<https://www.revisor.mn.gov/statutes/?id=352B>)

Correctional Employees Retirement Fund – M.S. Sections 352.90-352.955

(<https://www.revisor.mn.gov/statutes/?id=352>)

Judges Retirement Fund – M.S. Chapter 490 (<https://www.revisor.mn.gov/statutes/?id=490>)

Legislators and Constitutional Officers Plan – M.S. Chapter 3A (<https://www.revisor.mn.gov/statutes/?id=3A>)

Unclassified Employees Retirement Fund – M.S. Chapter 352D (<https://www.revisor.mn.gov/statutes/?id=352D>)

Health Care Savings Plan – M.S. Section 352.98 (<https://www.revisor.mn.gov/statutes/?id=352.98>)

Minnesota Deferred Compensation Fund – M.S. Section 352.965

(<https://www.revisor.mn.gov/statutes/?id=352.965>)

Hennepin County Supplemental Retirement Plan – M.S. Section 383B.46

(<https://www.revisor.mn.gov/statutes/?id=383B.46>)

Minnesota State Retirement System

Agency Expenditure Overview

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base		Governor's Recommendation	
					FY20	FY21	FY20	FY21
<u>Expenditures by Fund</u>								
7210 - Correctional Employees Retire	61,716	65,553	70,545	75,146	81,449	88,288	81,449	88,288
7230 - Highway Patrol Retirement	58,023	58,827	59,992	63,178	65,352	67,601	65,352	67,601
7240 - Judicial Retirement	22,468	23,198	23,709	30,886	32,053	33,275	32,053	33,275
7250 - Legislative Annuities	8,576	8,758	8,961	9,071	9,253	9,391	9,253	9,391
7260 - State Employees Retirement	739,071	746,700	826,582	884,621	942,708	1,004,882	942,708	1,004,882
7401 - Retirement System Building			1,573	1,646	1,642	1,681	1,642	1,681
Total	889,854	903,036	991,362	1,064,548	1,132,457	1,205,118	1,132,457	1,205,118
Biennial Change				263,020		281,665		281,665
Biennial % Change				15		14		14
Governor's Change from Base								0
Governor's % Change from Base								0
<u>Expenditures by Program</u>								
Mn State Retirement System	858,810	871,080	958,691	1,024,591	1,091,151	1,162,452	1,091,151	1,162,452
Judges Plan	22,468	23,198	23,709	30,886	32,053	33,275	32,053	33,275
Legislators Plan	8,576	8,758	8,961	9,071	9,253	9,391	9,253	9,391
Total	889,854	903,036	991,362	1,064,548	1,132,457	1,205,118	1,132,457	1,205,118
<u>Expenditures by Category</u>								
Compensation	10,147	10,841	11,163	13,480	13,729	14,004	13,729	14,004
Operating Expenses	8,815	5,983	6,983	10,478	10,560	10,687	10,560	10,687
Grants, Aids and Subsidies			1					
Capital Outlay-Real Property		2	39	15	13	11	13	11
Other Financial Transaction	870,892	886,210	973,176	1,040,575	1,108,155	1,180,416	1,108,155	1,180,416
Total	889,854	903,036	991,362	1,064,548	1,132,457	1,205,118	1,132,457	1,205,118
Total Agency Expenditures	889,854	903,036	991,362	1,064,548	1,132,457	1,205,118	1,132,457	1,205,118
Internal Billing Expenditures		986	1,018	1,364	1,405	1,448	1,405	1,448
Expenditures Less Internal Billing	889,854	902,050	990,343	1,063,184	1,131,052	1,203,670	1,131,052	1,203,670
<u>Full-Time Equivalent</u>	114.72	116.67	117.69	135.70	135.50	135.50	135.50	135.50

Minnesota State Retirement System

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY16	Actual FY17	Actual FY18	Estimate FY19	Forecast Base FY20 FY21		Governor's Recommendation FY20 FY21	
1000 - General								
Direct Appropriation		3,000	6,000	6,000	6,000	6,000	6,000	6,000
Open Appropriation	5,177	8,758	8,961	9,071	9,253	9,391	9,253	9,391
Transfers Out	5,177	11,758	14,961	15,071	15,253	15,391	15,253	15,391

7210 - Correctional Employees Retire

Open Appropriation	61,716	65,553	70,545	75,146	81,449	88,288	81,449	88,288
Expenditures	61,716	65,553	70,545	75,146	81,449	88,288	81,449	88,288
Biennial Change in Expenditures				18,421		24,046		24,046
Biennial % Change in Expenditures				14		17		17
Governor's Change from Base								0
Governor's % Change from Base								0

7230 - Highway Patrol Retirement

Open Appropriation	57,023	57,826	58,992	62,178	64,352	66,601	64,352	66,601
Transfers In	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Expenditures	58,023	58,827	59,992	63,178	65,352	67,601	65,352	67,601
Biennial Change in Expenditures				6,321		9,783		9,783
Biennial % Change in Expenditures				5		8		8
Governor's Change from Base								0
Governor's % Change from Base								0

7240 - Judicial Retirement

Open Appropriation	22,468	20,198	17,709	24,886	26,053	27,275	26,053	27,275
Transfers In		3,000	6,000	6,000	6,000	6,000	6,000	6,000
Expenditures	22,468	23,198	23,709	30,886	32,053	33,275	32,053	33,275
Biennial Change in Expenditures				8,929		10,733		10,733
Biennial % Change in Expenditures				20		20		20
Governor's Change from Base								0
Governor's % Change from Base								0

7250 - Legislative Annuities

Open Appropriation	3,399							
--------------------	-------	--	--	--	--	--	--	--

Minnesota State Retirement System

Agency Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY16	FY17	FY18	FY19	FY20	FY21	FY20	FY21
Transfers In	5,177	8,758	8,961	9,071	9,253	9,391	9,253	9,391
Expenditures	8,576	8,758	8,961	9,071	9,253	9,391	9,253	9,391
Biennial Change in Expenditures				699		612		612
Biennial % Change in Expenditures				4		3		3
Governor's Change from Base								0
Governor's % Change from Base								0

7260 - State Employees Retirement

Open Appropriation	739,643	747,272	827,154	885,197	943,281	1,005,459	943,281	1,005,459
Transfers Out	572	572	572	576	573	577	573	577
Expenditures	739,071	746,700	826,582	884,621	942,708	1,004,882	942,708	1,004,882
Biennial Change in Expenditures				225,432		236,387		236,387
Biennial % Change in Expenditures				15		14		14
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	114.72	116.67	117.69	135.70	135.50	135.50	135.50	135.50

7401 - Retirement System Building

Balance Forward In				4				
Receipts			1,577	1,642	1,642	1,681	1,642	1,681
Balance Forward Out			4					
Expenditures			1,573	1,646	1,642	1,681	1,642	1,681
Biennial Change in Expenditures				3,219		104		104
Biennial % Change in Expenditures						3		3
Governor's Change from Base								0
Governor's % Change from Base								0

Minnesota State Retirement System

Agency Change Summary

(Dollars in Thousands)

	FY19	FY20	FY21	Biennium 2020-21
Direct				
Fund: 1000 - General				
FY2019 Appropriations	6,000	6,000	6,000	12,000
Forecast Base	6,000	6,000	6,000	12,000
Total Governor's Recommendations	6,000	6,000	6,000	12,000
Open				
Fund: 1000 - General				
FY2019 Appropriations	9,071	9,071	9,071	18,142
Base Adjustments				
Forecast Open Appropriation Adjustment	228	414	604	1,018
November Forecast Adjustment	(228)	(232)	(284)	(516)
Forecast Base	9,071	9,253	9,391	18,644
Total Governor's Recommendations	9,071	9,253	9,391	18,644
Fund: 7210 - Correctional Employees Retire				
FY2019 Appropriations	75,146	75,146	75,146	150,292
Base Adjustments				
Forecast Open Appropriation Adjustment		6,303	13,142	19,445
Forecast Base	75,146	81,449	88,288	169,737
Total Governor's Recommendations	75,146	81,449	88,288	169,737
Fund: 7230 - Highway Patrol Retirement				
FY2019 Appropriations	62,178	62,178	62,178	124,356
Base Adjustments				
Forecast Open Appropriation Adjustment		2,174	4,423	6,597
Forecast Base	62,178	64,352	66,601	130,953
Total Governor's Recommendations	62,178	64,352	66,601	130,953
Fund: 7240 - Judicial Retirement				
FY2019 Appropriations	24,886	24,886	24,886	49,772
Base Adjustments				
Forecast Open Appropriation Adjustment		1,167	2,389	3,556
Forecast Base	24,886	26,053	27,275	53,328
Total Governor's Recommendations	24,886	26,053	27,275	53,328
Fund: 7260 - State Employees Retirement				
FY2019 Appropriations	885,298	885,298	885,298	1,770,596
Base Adjustments				

Minnesota State Retirement System

Agency Change Summary

(Dollars in Thousands)

	FY19	FY20	FY21	Biennium 2020-21
Forecast Open Appropriation Adjustment	(101)	57,983	120,161	178,144
Forecast Base	885,197	943,281	1,005,459	1,948,740
Total Governor's Recommendations	885,197	943,281	1,005,459	1,948,740
<i>Dedicated</i>				
Fund: 7401 - Retirement System Building				
Planned Spending	1,646	1,642	1,681	3,323
Forecast Base	1,646	1,642	1,681	3,323
Total Governor's Recommendations	1,646	1,642	1,681	3,323
<i>Revenue Change Summary</i>				
<i>Dedicated</i>				
Fund: 7401 - Retirement System Building				
Forecast Revenues	1,642	1,642	1,681	3,323
Total Governor's Recommendations	1,642	1,642	1,681	3,323
<i>Non-Dedicated</i>				
Fund: 7210 - Correctional Employees Retire				
Forecast Revenues	131,491	136,678	142,099	278,777
Total Governor's Recommendations	131,491	136,678	142,099	278,777
Fund: 7230 - Highway Patrol Retirement				
Forecast Revenues	87,344	91,851	96,772	188,623
Total Governor's Recommendations	87,344	91,851	96,772	188,623
Fund: 7240 - Judicial Retirement				
Forecast Revenues	44,902	45,554	46,215	91,769
Total Governor's Recommendations	44,902	45,554	46,215	91,769
Fund: 7250 - Legislative Annuities				
Forecast Revenues	102	98	94	192
Total Governor's Recommendations	102	98	94	192
Fund: 7260 - State Employees Retirement				
Forecast Revenues	1,166,594	1,199,730	1,233,876	2,433,606
Total Governor's Recommendations	1,166,594	1,199,730	1,233,876	2,433,606